

# FDIC State Profile

Spring 2005

## New Mexico

New Mexico's economy continues along a steady path.

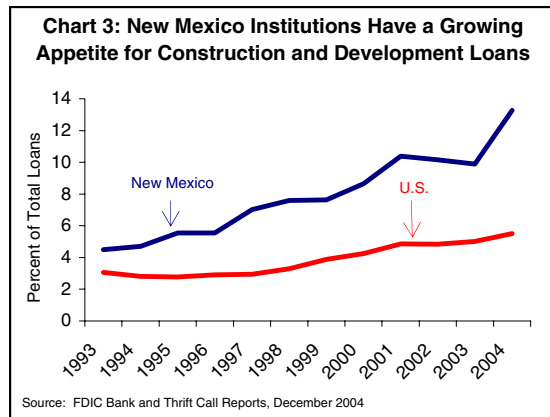
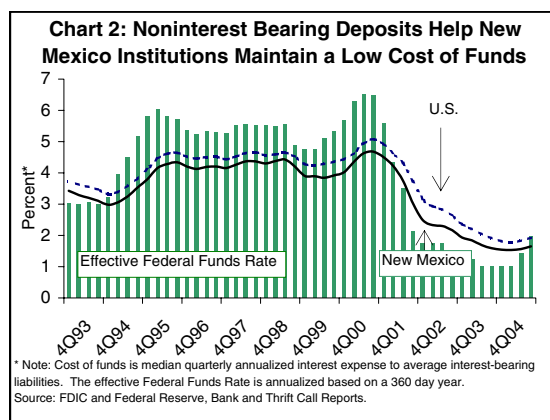
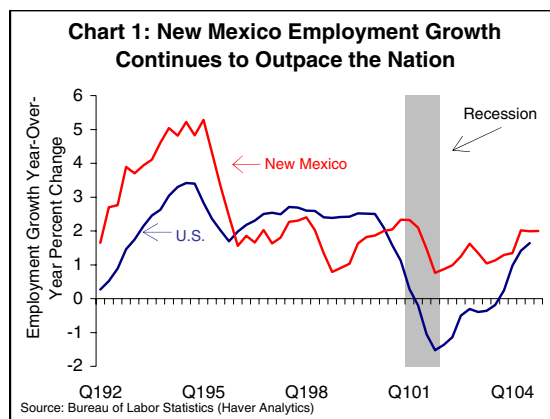
- New Mexico employment continued to outpace the nation as of year-end 2004, a pattern that has held for the past four years (See Chart 1). New Mexico ranked 12th in the nation for employment growth at 2 percent in fourth quarter 2004. This represents a decline from the fifth best employment growth at year-end 2003.
- The state has been sliding down the employment growth rankings, not because of slower statewide growth, but because other states are experiencing an acceleration in their job growth rates.

Employment gains are broad-based across the state's major industry sectors.

- The only major employment sector reporting minimal job losses as of year-end 2004 was manufacturing (0.6 percent).
- New Mexico's construction sector exhibited the fastest employment growth rate within the state at 6.6 percent from year-end 2003, aided by strong demand for housing fueled by low mortgage interest rates and growing in-migration.
- The second fastest growing sector was the natural resources and mining sector, which added 700 jobs and grew at a rate of 4.8 percent. Strong commodity prices in general and crude oil prices in particular, provided job stimulus.

Higher energy prices provide boost to state's energy-related sectors.

- Crude oil prices continued their volatility. In March 2005, the price per barrel surpassed \$56 (West Texas Intermediate crude), establishing a new all-time high, supported by colder weather and concerns over tighter crude oil supplies.
- Higher energy prices have been a boon to the state's significant natural gas and oil industries.
- Additionally, strong U.S. and global economic growth has aided New Mexico's leading non-fuel mineral



industries—coal, copper, molybdenum, and potash. As of fourth quarter 2004, natural resources and mining employment in New Mexico was at its highest level since third quarter 2001.

### **New Mexico's population is aging.**

- New Mexico's attraction for a growing number of retirees is its low cost of living, favorable weather, and natural beauty. Significant migration is evident in **Albuquerque, Las Cruces**, and the **Rio Grande River** and **Four Corners** areas.
- Local/suburban transit, educational services, membership organizations, and real estate industries each have a workforce where more than 20 percent were 55 years and older in 2002. The educational services and real estate industries employ more than 1,000 older workers.
- Industries where workers 65 years and older are most likely to be employed include health services, business services, and eating and drinking establishments.
- With the influx of retirees, New Mexico will see continued growth in the health services and construction sectors.

### **New Mexico insured institution performance—steady as she goes.**

- The median return on assets ratio, both before and after tax, for institutions headquartered in New Mexico was slightly above the national average for the 12 months ending December 31, 2004. However, the New Mexico bank and thrift profitability figures remain among the state's lowest levels in more than a decade.
- Three out of four insured financial institutions in New Mexico are less than \$250 million in assets, and their earnings tend to be more dependent on net interest margin (NIM) than those at larger institutions. For these banks, the NIM was among the lowest levels in the past ten years. Noninterest income, as a percent of average assets, was also at decade low levels.
- Following the national trend, credit quality for New Mexico institutions continues to improve as past-due and charge-off rates remain near ten-year lows.

### **New Mexico institution funding costs remain among the lowest in the nation.**

- The median cost of funds for New Mexico insured institutions was 1.65 for the fourth quarter of 2004 ranking seventh lowest nationwide (See Chart 2). New Mexico institutions tend to hold higher levels of noninterest bearing deposits. Additionally, 69 percent of the state's banks and thrifts are in rural areas, which often have fewer

market competitors and provide bankers with greater influence in determining interest rates for both loan and deposit products.

### **Subchapter S—election is now easier.**

- Since Subchapter S Corporation (Sub S) status became available in 1997, 44 percent of New Mexico's community banks and thrifts converted to eliminate double taxation of dividends and capital gains.<sup>1</sup> With the passage of the American Jobs Creation Act of October 2004 that eased the requirements for converting to Sub S status, even more banks are expected to convert and take advantage of the tax-favored status.

### **Solid New Mexico real estate growth is prompting strong demand for construction lending.**

- New Mexico commercial and residential real estate building permits remain exceptionally vibrant, prompting insured institutions to grow construction lending to record levels. Construction and development loans at New Mexico insured institutions represented 13.3 percent of total loans as of December 31, 2004, more than twice the national rate (See Chart 3).
- New Mexico insured institutions reported stable residential loan past-due rates that were slightly above national levels. However, mortgage foreclosure rates remain above the national average and are an area to watch, especially if long-term interest rates rise.
- Rapid growth in commercial real estate (CRE) lending for New Mexico insured institutions reached record levels and now represents 29 percent of total loans, or twice the national rate.
- A potential downside risk is noted in the Albuquerque industrial CRE segment. According to Torto Wheaton Research, Albuquerque industrial availability is expected to weaken further in 2005 and 2006 as manufacturing and distribution properties continue to consolidate in larger markets.

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<sup>1</sup>Community banks are defined as insured institutions with less than \$1 Billion in assets excluding specialty and credit card banks.

## New Mexico at a Glance

**ECONOMIC INDICATORS** (Change from year ago quarter, unless noted)

<b>Employment Growth Rates</b>	<b>Q4-04</b>	<b>Q4-03</b>	<b>Q4-02</b>	<b>Q4-01</b>	<b>Q4-00</b>
Total Nonfarm (share of trailing four quarter employment in parentheses)	2.0%	1.5%	1.6%	0.7%	2.3%
Manufacturing (5%)	-0.6%	-2.8%	-5.5%	-6.1%	2.3%
Other (non-manufacturing) Goods-Producing (8%)	6.3%	5.0%	-4.4%	1.1%	7.3%
Private Service-Producing (62%)	1.9%	1.1%	2.4%	0.9%	2.3%
Government (25%)	1.7%	2.3%	3.2%	1.9%	0.7%
Unemployment Rate (% of labor force)	5.6	5.9	5.7	5.0	4.9

<b>Other Indicators</b>	<b>Q4-04</b>	<b>Q4-03</b>	<b>Q4-02</b>	<b>Q4-01</b>	<b>Q4-00</b>
Personal Income	N/A	7.0%	1.8%	9.9%	5.5%
Single-Family Home Permits	-1.8%	21.5%	43.9%	-2.4%	-7.3%
Multifamily Building Permits	135.8%	-73.2%	469.1%	-58.2%	383.3%
Existing Home Sales	21.0%	1.6%	18.9%	19.4%	6.9%
Home Price Index	8.0%	6.3%	4.5%	4.6%	1.8%
Bankruptcy Filings per 1000 people (quarterly level)	1.19	1.11	1.23	1.08	0.96

**BANKING TRENDS**

<b>General Information</b>	<b>Q4-04</b>	<b>Q4-03</b>	<b>Q4-02</b>	<b>Q4-01</b>	<b>Q4-00</b>
Institutions (#)	58	60	60	63	64
Total Assets (in millions)	15,822	20,529	18,846	18,695	18,569
New Institutions (# < 3 years)	0	1	6	7	8
Subchapter S Institutions	24	24	22	22	16

<b>Asset Quality</b>	<b>Q4-04</b>	<b>Q4-03</b>	<b>Q4-02</b>	<b>Q4-01</b>	<b>Q4-00</b>
Past-Due and Nonaccrual Loans / Total Loans (median %)	1.23	1.58	1.82	2.75	2.53
ALLL/Total Loans (median %)	1.37	1.32	1.41	1.29	1.23
ALLL/Noncurrent Loans (median multiple)	2.03	1.64	1.41	1.33	1.23
Net Loan Losses / Total Loans (median %)	0.18	0.14	0.28	0.28	0.12

<b>Capital / Earnings</b>	<b>Q4-04</b>	<b>Q4-03</b>	<b>Q4-02</b>	<b>Q4-01</b>	<b>Q4-00</b>
Tier 1 Leverage (median %)	8.53	8.47	8.67	8.50	8.74
Return on Assets (median %)	1.09	1.14	1.15	1.08	1.21
Pretax Return on Assets (median %)	1.50	1.52	1.54	1.49	1.69
Net Interest Margin (median %)	4.65	4.49	4.72	4.88	5.24
Yield on Earning Assets (median %)	5.75	6.07	6.77	7.97	8.46
Cost of Funding Earning Assets (median %)	1.23	1.39	1.88	3.09	3.51
Provisions to Avg. Assets (median %)	0.13	0.14	0.28	0.29	0.18
Noninterest Income to Avg. Assets (median %)	0.83	0.90	0.82	0.75	0.78
Overhead to Avg. Assets (median %)	3.24	3.46	3.42	3.47	3.70

<b>Liquidity / Sensitivity</b>	<b>Q4-04</b>	<b>Q4-03</b>	<b>Q4-02</b>	<b>Q4-01</b>	<b>Q4-00</b>
Loans to Assets (median %)	59.1	58.5	59.2	57.1	60.5
Noncore Funding to Assets (median %)	20.0	20.0	19.7	20.4	20.3
Long-term Assets to Assets (median %, call filers)	19.6	18.9	18.7	19.2	13.5
Brokered Deposits (number of institutions)	7	9	9	8	4
Brokered Deposits to Assets (median % for those above)	3.1	1.3	2.4	2.4	4.3

<b>Loan Concentrations (median % of Tier 1 Capital)</b>	<b>Q4-04</b>	<b>Q4-03</b>	<b>Q4-02</b>	<b>Q4-01</b>	<b>Q4-00</b>
Commercial and Industrial	108.1	110.8	113.7	107.2	116.4
Commercial Real Estate	244.1	231.4	198.2	176.5	149.0
<i>Construction &amp; Development</i>	49.5	43.2	32.3	41.9	39.9
<i>Multifamily Residential Real Estate</i>	6.8	4.5	4.5	4.2	4.7
<i>Nonresidential Real Estate</i>	156.0	160.3	138.3	134.2	112.2
Residential Real Estate	136.4	135.0	135.5	130.6	135.5
Consumer	40.1	48.2	59.5	65.1	73.1
Agriculture	29.1	30.2	38.1	37.6	26.3

**BANKING PROFILE**

<b>Largest Deposit Markets</b>	<b>Institutions in Market</b>	<b>Deposits (\$ millions)</b>	<b>Asset Distribution</b>	<b>Institutions</b>
Albuquerque, NM	23	7,742	< \$250 mil.	43 (74.1%)
Santa Fe, NM	11	1,751	\$250 mil. to \$1 bil.	11 (19%)
Las Cruces, NM	16	1,236	\$1 bil. to \$10 bil.	4 (6.9%)
Farmington, NM	7	888	> \$10 bil.	0 (0%)